East Lothian Council

REPORT TO: Policy and Performance Review Committee

MEETING DATE: 25 November 2014

BY: Depute Chief Executive – Resources and People Services

SUBJECT: Rent Arrears

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1 PURPOSE

1.1 To inform the Committee about the significant work which has been undertaken by the Revenues service since the last Policy and Performance Review Committee report was submitted on 19 March 2013.

1.2 To inform the Committee about improvements in current year rent collection performance and how recent collection performance compares to other Scottish Councils.

2 RECOMMENDATIONS

2.1 The Committee is asked to note the change in approach to managing rent collection and to recognise that the service enhancements which have been introduced are producing improvements in current year performance compared to previous years.

2.2 The Committee is asked to note that, although as a social landlord the Council's focus continues to be around sustaining tenancies and ensuring that tenants receive the help and support they need to stay in their home, the new service improvements ensure that tenants themselves are more accountable for paying their rent and know what is expected of them, as well as being clear about the consequences of non payment.

2.3 The Committee is asked to recognise the commitment and dedication shown by all staff involved in rent collection and to support the Revenues service during this transitional period.

3 BACKGROUND

3.1 Rent Income staffing & budget

3.1.1 Managing rent arrears during a time of economic downturn and welfare cuts gives rise to substantial challenges for the Council. A reduction in staffing levels within the Rent Income team in recent years has affected the Council's ability to respond to this changing environment. These challenges have been recognised and temporary funding of £100k was awarded to the Revenues service in 2012/13 to assist with rent collection. This temporary funding was extended into 2013/14 and was subsequently made permanent in 2014/15.

3.1.2 Although the additional, 2 year, temporary funding allowed the Revenues service to recruit temporary staff to assist with rent collection, staff retention became a significant concern for the service with high staff turnover due to the nature of the short term, temporary contracts in 2012/13 and 2013/14.

3.1.3 Since the funding became permanent in 2014/15, the Revenues service has recruited one additional permanent Rent Income Officer and three permanent Rent Income Advisers. It is pleasing to report that these members of staff remain within the Rent Income team, giving stability within the staffing establishment and as their knowledge and experience has increased, their contribution has become invaluable to the Revenues service over recent months.

3.1.4 Following the departure of the then Rent Income Team Leader under VERS in August 2013, the Rent Income and Fraud Investigations Teams were merged under one line manager and the then Investigations Team Leader was transferred from the Benefits Service to the Revenues Service to take up a new role as Rent Income & Investigations Team Leader.

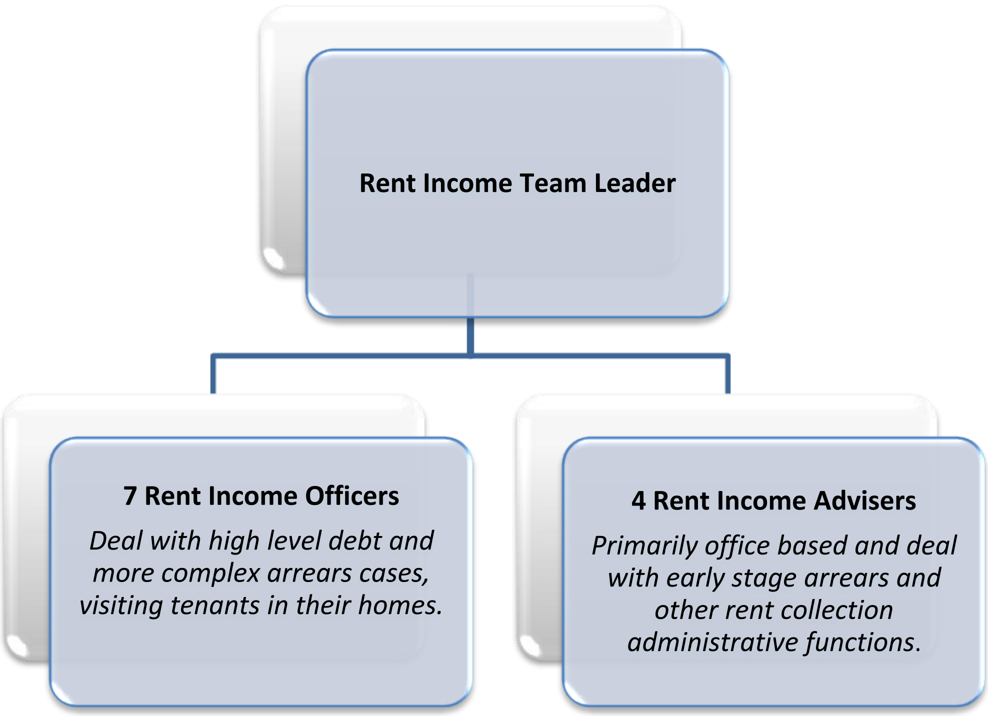
3.1.5 The Department for Work and Pensions has created a new, national Single Fraud Investigations Service (also known as Fraud & Error Service) and all Local Authority staff with a role in investigating Benefit Fraud will transfer into this new team. 1.6 FTE posts from East Lothian Council transferred at 1 November 2014 under the Cabinet Office Statement of Practice (COSOP) – similar to TUPE provisions.

3.1.6 The services of the current Rent Income & Investigation Team Leader were retained by the Council as the post did not meet the criteria for transfer to the DWP i.e. the post is not solely or primarily dealing with Welfare Fraud so was therefore not in scope. It was also agreed that a full time Team Leader was once again required to manage rent collection. The re-established, dedicated Rent Income Team Leader role is essential with significant challenges ahead. The new team structure is shown at Figure 1.

3.1.7 The additional staffing resource and formation of the new team has helped to provide a more proactive and preventative/early intervention approach to rent collection, with more face-to-face contact with tenants. Having a strong presence in the community is ensuring that tenants get the help they need quickly to manage their rent payments. Prompt referrals to the Citizens Advice Bureau, Welfare Rights and for tenancy support can also be made if a need is identified.

3.1.8 The additional permanent staffing within the Rent Income service has seen this staffing group transform into a highly motivated, dynamic team who are committed to implementing change and achieving success. The strengthened team shows a real desire and passion to turn around the decline in performance of recent years.

Figure 1



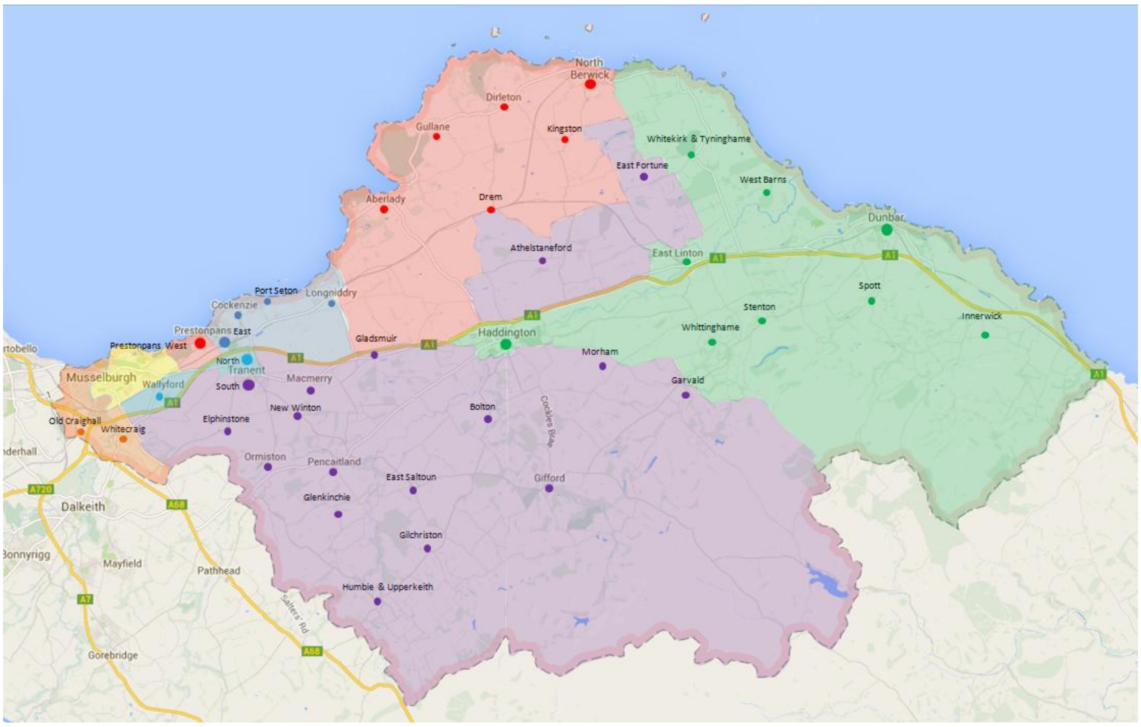
3.2 Management of rent arrears within geographical areas

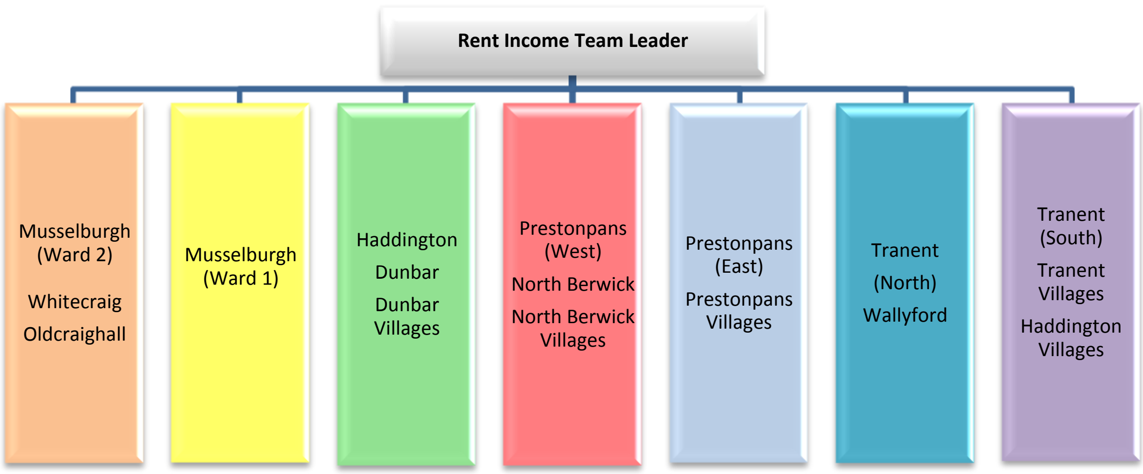
3.2.1 Although the management of rent arrears in East Lothian has historically been split by geographical area, the additional, permanent staffing resource has allowed realignment of geographical areas so that the workload is managed more effectively and the caseload for each member of staff is now consistent and manageable.

3.2.2 Sub teams within the Rent Income team have been set up so that Officers and Advisers can work together in smaller, more focused area teams to manage both early stage arrears and serious arrears for their designated geographical patches.

3.2.3 This new approach to caseload management is proving to be popular with the Rent Income Officers and Advisers and is more conducive to the focused monitoring work carried out by the team leader. The new geographical area split is shown at Figure 2.

Figure 2





3.3 **Previous Year Trends**

3.3.1 Figure 3 shows rent arrears trends in East Lothian between 2011/12 and 2013/14.

3.3.2 In order to demonstrate performance improvements in 2014/15, it is important to compare to previous year trends. A similar pattern with increasing arrears can be seen in each of the previous 3 financial years.

3.3.3 As previously reported to the Committee, staffing levels within the Rent Income team have changed significantly in recent years. In 2000, a team of 15 reduced rent arrears from £1.1m to £550k. In 2006, the team was reduced to 9 following a staffing review within local offices. The team absorbed the work of those who transferred to Customer Services but rent arrears started to increase steadily. A further 2 posts were lost to efficiency savings in the following years and prior to the additional investment in staffing made in 2012, the team consisted of 7 staff (six officers and one team leader).

3.3.4 As reported at 3.1.2, the temporary nature of the additional funding, allocated in 2012, then presented problems in terms of staff retention. Additional, permanent staffing resource, introduced in 2014, is now providing the stability which has been lacking in recent years is the platform upon which improved performance is being built.

3.3.5 The Council's reported rent collection performance had been below the Scottish average in recent years and this was in part due to the way Councils interpreted legislation in relation to the ending tenancies upon granting of decree. The Housing (Scotland) Act 2010 was amended in August 2012 and now addresses the termination of a tenancy where an order for eviction (decree) has been granted on the grounds of rent arrears. The decree no longer terminates the tenancy at the date on which it becomes effective. Instead, the tenancy will only be terminated when the landlord recovers possession. This aims to resolve the uncertainty where a tenant is allowed to remain in a property if suitable payments are being made following the grant of decree.

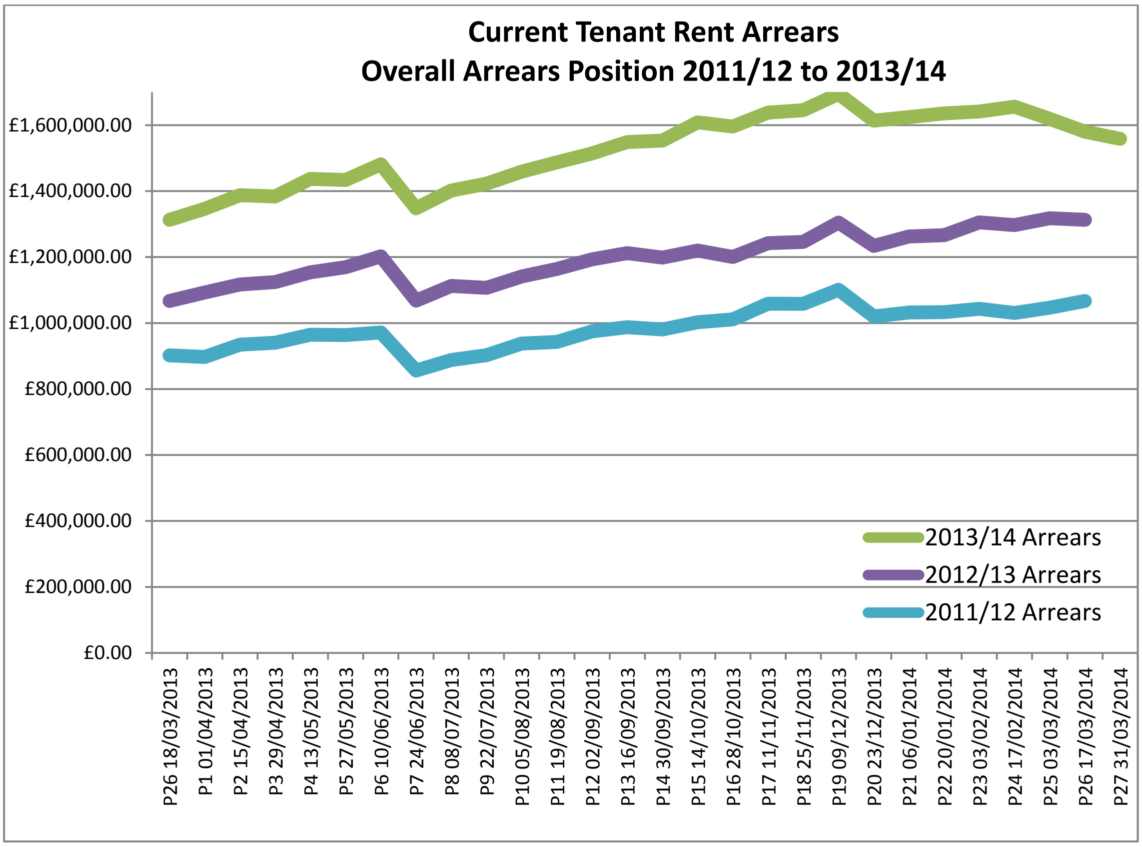
3.3.6 As previously reported to the Committee, prior to this new legislation being introduced, around three quarters of Scottish Councils ended tenancies when the Sheriff Court granted decree for eviction, thus keeping current tenant debt low although increasing former tenant debt. Upon legal advice, East Lothian did not end tenancies in these circumstances. This made any form of performance benchmarking in recent years very difficult, with no true like for like comparison. In August 2012, legislation changed to mirror East Lothian's working practice.

3.3.7 As reported at 3.25, the most significant welfare reform introduced so far has seen reductions in benefit payment due to under occupation - commonly referred to as the 'bedroom tax'. This reform has had a direct impact on rent arrears from April 2013. The Rent Income team assists tenants with their applications for Discretionary Housing Payment, which can cover the additional rent due and also works to collect unpaid rent from those who decline this assistance.

3.3.8 As reported at 3.26, wherever possible, East Lothian Council aims to recover all public sector housing benefit overpayments from ongoing benefit entitlement, effectively giving rise to an increase in rent due for tenants affected. This working practice was adopted in 2010 and has had an impact on rent arrears. The Rent Income team works closely with the Benefits team and tenants to set manageable recovery rates.

3.3.9 Arrears levels have historically reduced significantly during the two rent charge breaks each financial year (July and December) as the Rent Income team ensure that tenants with rent arrears continue to repay any debt owed to the Council during these periods.

Figure 3



The financial increase in current tenant rent arrears over the last three years was reported as follows:

Financial Year	Start of Year	End of Year	£ Increase
2011/12	£902,083.25	£1,067,096.11	£165,012.86
2012/13	£1,067,096.11	£1,312,757.44	£245,661.33
2013/14 (excl. HBOP)	£1,312,757.44	£1,475,010.66	£162,253.22
2013/14 (incl. HBOP)	£1,312,757.44	£1,558,401.26	£245,643.82

NB. Refer to Section 3.24 in relation to the reporting of housing benefit overpayments.

3.4 **Rent Arrears & Targets 2014/15**

3.4.1 In an effort to make substantial impact upon the increasing levels of rent debt, additional permanent funding was allocated to the Revenues service. This has helped stabilise and improve staffing and the the Revenues service has now established targets to reduce Council house rent debt to £1m by the end of 2015/16. In order to achieve this, a debt reduction target of £250,010.66 has been set for 2014/15 and the end of 2014/15 target is £1,225,000.00.

3.4.2 The overall four weekly reduction required in 2014/15 was originally set at £19,231.59 in April 2014 and this was further split by geographical area to ensure that members of the Rent Income team had devolved responsibility for meeting target in their own geographical patch.

3.4.3 At the end of rent period 9 on 10th August 2014, an overall increase in current tenant rent debt of £145,611.55 was reported. There were two reasons for this increase:

- £83,299.60 was added back into the overall arrears total as the guidelines for the accounting of housing benefit overpayment debt at the end of 2013/14 was unclear and was misinterpreted.

  Definition from Regulator:

  Do not include:
  (i) as arrears:
  the value of overpayments of housing costs (housing benefit/universal credit) ***debited*** *to tenants' rent accounts;*

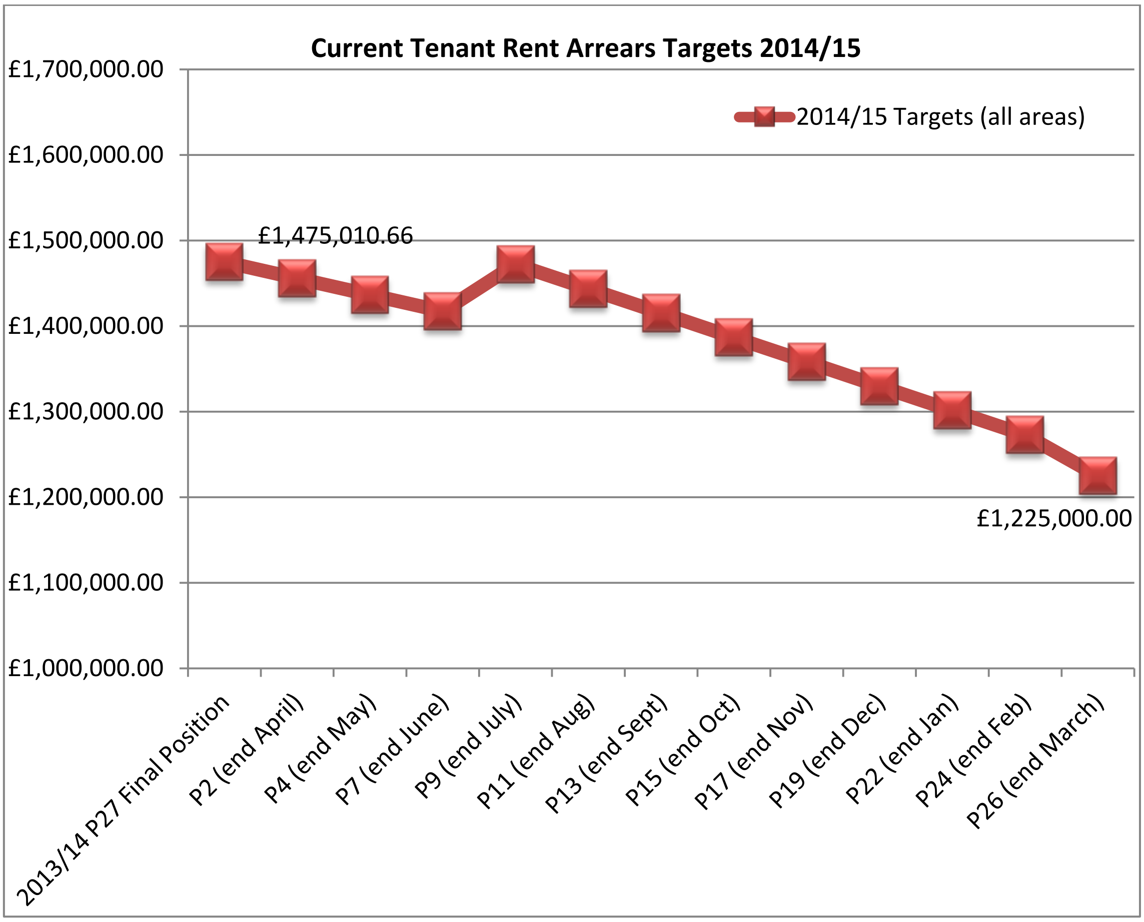
  As a result of retrospective clarification, it was established that housing benefit overpayment debt **should be included** and was therefore added back into the arrears figures. This appears to be in contradiction to the definition; however the team targets from rent period 9 onwards were adjusted to reflect this additional £83,299.60.

  The Revenues service still aims to achieve the end of 2014/15 target of £1,225,000.00; however the four weekly reduction target has increased from £19,231.59, which was set in April 2014, to £28,487.10 from August 2014 onwards.

- The second reason for the increase at the end of rent period 9 was due to the arrears position increasing by £62,311.95 between 13th July and 10th August 2014.

Rent arrears targets for 2014/15 are shown in Figure 4 below and full details of targets are available on request.

Figure 4

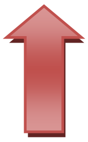


3.4.4 Position at end Q1 2014/15

- Collection target for the end of Q1 2014/15 was £1,417,315.89.
- Actual achieved at the end of Q1 2014/15 was £1,406,854.88
- The team achieved £10,461.01 under the target set.

3.4.5 Position at end Q2 2014/15

- Revised collection target for the end of Q2 2014/15 was £1,415,154.19.
- Actual achieved at the end of Q2 2014/15 was £1,551,142.39
- The team reported arrears of £135,988.20 over the target set.



The increase in current tenant rent debt during Q2 includes £83,299.60 in housing benefit overpayment debt which was added to the rent arrears at the end of July 2014.

3.4.6 Although the Revenues service did not achieve the target set for the end of Q2, there are signs of improved performance this financial year when compared to previous years' performance. To demonstrate this by month:

- In April 2014 the team reported an increase of £57,061.12.
  In April 2013, an increase of £74,698.30 was reported.

- In May 2014 the team reported a reduction of £5,327.16.
  No reduction was reported at this point during 2011/12, 2012/13 or 2013/14.

- In June 2014 (the summer rent charge break) the team reported a reduction of £119,889.74.
  Although there has been, historically, a reduction reported each year after the summer rent charge break, the reduction in 2014/15 was higher than it has been between 2011/12 and 2013/14.

- In July 2014 the team reported an increase of £62,311.95
  In July 2013, an increase of £74,717.07 was reported.

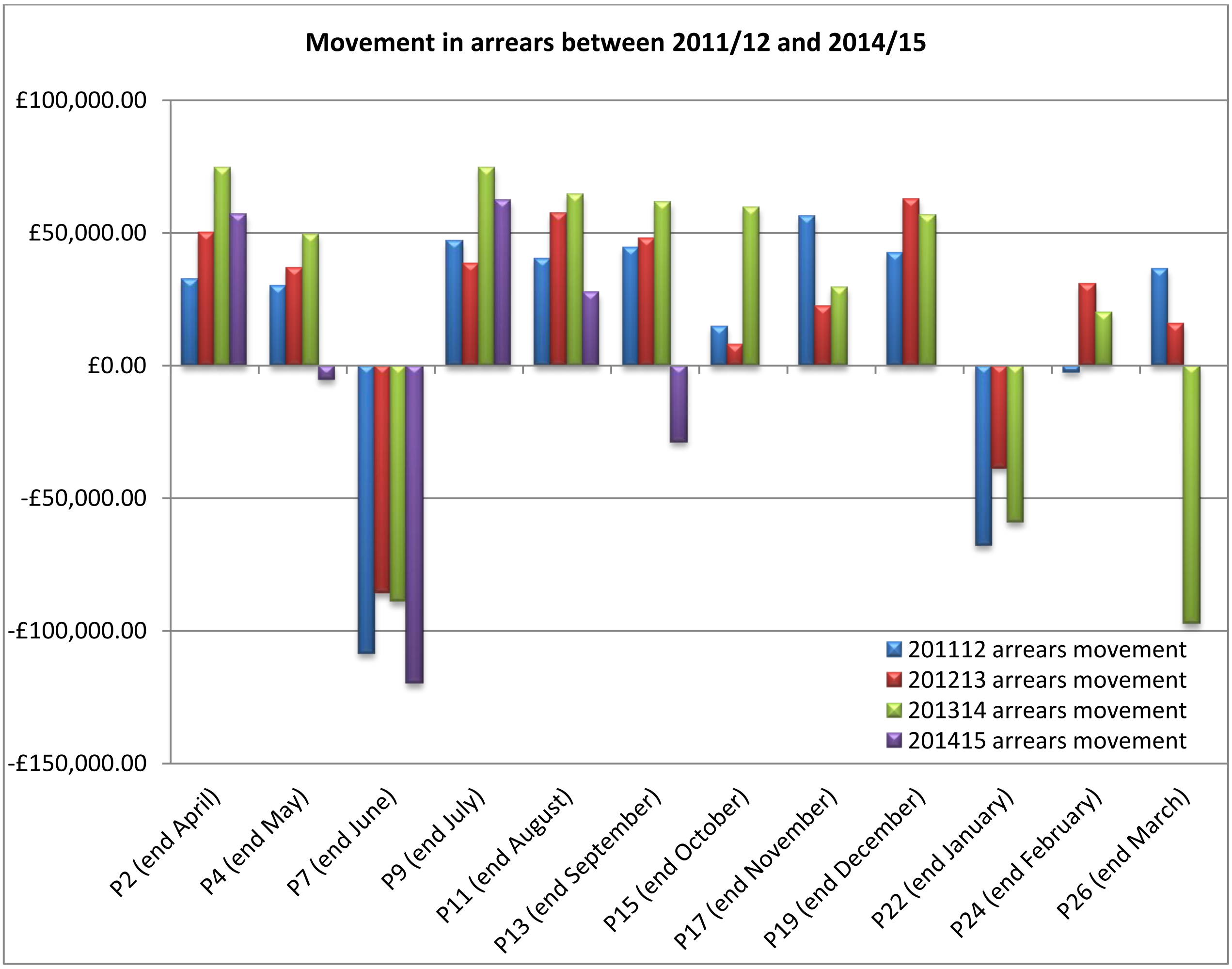
- In August 2014 the team reported an increase of £27,457.45
  This is the lowest increase reported at this point in the year since 2011/12.

- In September 2014 the team reported a reduction of £28,781.49.
  No reduction has been reported at this point in any of the last three years. It is also worth noting that rent arrears increased by £61,516.23 during the same reporting period in 2013/14.

- Looking at the movement of current tenant rent debt since April 2014, leaving aside the £83,299.60 housing benefit overpayment debt which was added in Q2, the net effect of the arrears position to the end of September 2014 was an overall reduction of £7,167.87.
  To put this into context, between April and September 2013, current tenant rent debt increased by £235,939.69. This is clear evidence of improving collection performance.

Figure 5 shows the movement on a four weekly basis from 2011/12 to the end of September 2014.

Figure 5



3.4.7 By comparing rent arrears trends from 2011/12 to date, there is strong evidence to show signs of improved performance this financial year. There is a significant amount of work to do to achieve agreed collection targets, however recent results are very encouraging and are demonstrating that the measures put in place to manage rent collection more effectively and to achieve targets are proving successful. Whilst it may take some time to reverse the trends of recent years, the service improvements and collaborative working arrangements being developed give confidence that aspirations can be met.

3.5 Service improvements and collaborative working initiatives to reduce rent arrears

The following sections outline some of the work going on in East Lothian Council to manage rent arrears more effectively and to reduce the outstanding debt.

The key service improvements and joint working initiatives outlined in the following sections demonstrate the changing ethos and give an indication of the energy that the Rent Income team is showing in their desire to *initiate* solutions and continuously improve the service.

The team is committed to *delivering* a responsive and customer *focused* service and proactively *exploring* opportunities for better ways of working.

The team works closely as a unit and is building strong working relationships with internal colleagues to *share* knowledge of good practice within the team, within the Council and with peer groups.

3.6 The Council's Rent Arrears Scrutiny Group

A Rent Arrears Scrutiny Group was formed in East Lothian in December 2013. This Group consists of Chief Officials, Senior Management and staff from Revenues, Housing and Benefit teams.

The Scrutiny Group meetings are held on a monthly basis and Monica Patterson, Depute Chief Executive – Partnerships & Community Services, chairs these meetings.

Revenues staff have welcomed the support from senior colleagues and this forum has provided an opportunity to discuss potential developments and initiatives and has also provided a platform to explore joint working opportunities between Revenues, Housing and Benefits staff.

3.7 Scottish Housing Regulator (SHR)

The Scottish Housing Regulator expressed concern around rent arrears in East Lothian Council and highlighted the possible risk of the Council being exposed to a performance review process or sanction. Members of the Rent Arrears Scrutiny Group, including representatives from the Revenues team, met with the Regulator in June 2014 to review improvement actions in relation to rent arrears.

Representatives from the SHR have expressed satisfaction with the measures which have been put in place to manage arrears. SHR representatives will be attending the Scrutiny Group meeting in December 2014 to review progress against plans.

A copy of the improvement plan produced for the SHR is available on request.

3.8 **Housing Quality Network (HQN) Training**

Since October 2013, Revenues staff have been working with a Housing Quality Network Associate, Tony Newman, to help improve the Council's rent collection service based on his experience in working with top performers in the sector.

An experienced housing practitioner, with a particular interest in income management and financial inclusion, Tony is lead associate for Housing Quality Network's specialist Rent Income Excellence Network (RIEN) and developed HQN's Income Management and Financial Inclusion Toolkits, as well as the HQN accreditation service for income management.

Tony has carried out many housing service reviews and mock inspections. He has extensive experience in improvement planning in income management, in both a local government and social housing context. He has worked with and provided training for many top performers in social housing and has practical experience of managing departments that have delivered improved collection performance and customer focus.

Tony has delivered two training courses for Revenues staff. The first session was held in October 2013 and a follow up session held in May 2014, which Housing and Benefits representatives attended also. These sessions were aimed at improving individual and team effectiveness and providing tools and techniques to:

- Understand the causes and impact of rent arrears and the emerging challenges
- Promote the importance of rent payment and the value of the service
- Prioritise cases to prevent rent arrears and reduce cost
- Drive collection rates upwards through dynamic case management and powerful negotiation
- Deal effectively with blockages, objections and excuses
- Work effectively with the Courts and other agencies
- Implement excellent practice throughout the arrears process

The training session in October, along with the appointment of a new Team Leader in the Rent Income team, signalled a change of direction and approach for the Revenues service. A number of initiatives raised at the training session were taken forward as service improvements and a new way of working and approach to managing rent arrears was implemented.

3.9 New Rent Arrears Recovery Procedures

One key element of the HQN training course focused around rent arrears recovery procedures. The traditional core recovery process was considered to be too weak and inconsistent and has since been redesigned by the Rent Income team, enabling working methods to become more streamlined and transparent for both internal and external stakeholders. The focus of the new process is primarily to collect money owed to the Council and to reduce the recovery timescales, with joint working and communication with other Council service areas featuring significantly.

Although the new core recovery process was implemented at the start of 2014/15, the process is constantly being reviewed and refined.

The new rent arrears recovery procedures are available on request.

3.10 Repayment Arrangement Process

In order to assist tenants to repay rent arrears, the Rent Income team allows tenants the option to clear their account in affordable instalments. In September 2014, the repayment arrangement process was redesigned to ensure fairness and consistency of approach and also to formalise working methods.

If a tenant has rent arrears and requests a repayment arrangement, the tenant is now asked to sign a repayment agreement. The agreement outlines the terms and conditions of the repayment arrangement so that the tenant fully understands their obligation to pay their rent arrears on time and in full. The agreement is signed by the tenant, the relevant Rent Income Officer and is ultimately authorised by the Rent Income Team Leader.

Since implementing the new process, of 265 agreements made, only one repayment arrangement has been broken.

The new repayment agreement process and repayment agreement are available on request.

3.11 Civica Case Management

Although Revenues staff use the core Housing system, Orchard, to manage rent collection and rent arrears, in order to underpin the new rent arrears recovery process, a need was identified to develop and implement a case management system.

Revenues, Housing and Benefits staff already use the Council's Workflow & Document Management system, Civica EDRMS, and it was agreed that this system would lend itself well to managing rent arrears cases and sharing information electronically across internal teams. A system specification was agreed, processes developed and this new way of working was adopted in June 2014.

3.12 **Introduction of Traffic Light Letters**

In addition to developing rent arrears recovery processes and procedures, tenant communications have also been redesigned and a traffic light system has been introduced for all rent letters for maximum visual effect.

Arrears letters are often ignored or the severity of the situation can be misunderstood by tenants, which can lead to avoidable arrears recovery action being carried out.

A need to differentiate between communication types was identified e.g. general information letters and statements and arrears recovery notices. By using graphical representation on rent letters, an opportunity now exists to communicate to our tenants in a more inclusive manner.

The Revenues service has introduced a traffic light system for rent letters, as this represents internationally and cross-culturally recognised symbols. Each colour and position on the traffic light represents different levels of importance or urgency. For example:

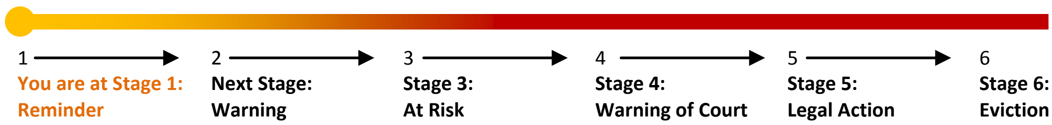
- **Statements or information letters are green**
- **Early stage arrears letters and pre court letters are amber**
- **Legal action letters are red**

See Figure 7.

In addition to using the traffic light symbol on our letters, a Tracker Bar is also displayed to show the tenant which stage of the arrears recovery process they have reached and what will happen next if they fail to respond.

See Figure 6.

Figure 6



Examples of the new rent arrears letters are available on request.

Figure 7

Green letters are used to provide a tenant with information and indicate that the tenant is paying their rent as agreed - no action is needed.

The green letters are typically used for statements or other general communications.

There is an invitation to contact the Rent Income team in the event of an enquiry, but no formal request to do so.

Amber letters are used to signify a warning or that a problem has been identified.

This letter is used when contact is required to avoid further escalation. The purpose of using this letter is to encourage the tenant to engage.

Payment options are clearly displayed in amber coloured boxes and information about help and support available is clearly shown.

Red letters are used to signify serious recovery or legal action, or possible eviction.

This letter is used when urgent contact is required and legal action is imminent.

Advice and payment options are clearly displayed.

3.13 Joint Working with Internal & External Stakeholders

A number of Council services have an interest in the rent arrears recovery process and can become involved with tenants in arrears. The Revenues team works closely with teams from:

3.13.1 Community Housing

The Rent Income team works closely with Housing colleagues on a day to day basis. The team leader and team members have regular liaison meetings and the new rent arrears recovery process has been communicated to all Housing teams. Work is ongoing to strengthen the links between both service areas, with a particular focus on new tenancies and tenancy support.

3.13.2 Homelessness

Following the introduction of the new traffic light letters in the Rent Income team, it has been agreed that this style of communication will be set up for communications from the Homelessness team. Approximately 40% of new tenants come into mainstream tenancies from homelessness accommodation, therefore it is felt that this service improvement will help tenants to understand what is expected of them from the start of the process and will be a good preventative measure in the long term.

3.13.3 Benefits

A close working relationship exists between the Rent Income team and the Benefits team. If a priority need is identified by the Rent Income team, both service areas work together to make a prompt assessment so that benefit can be awarded if the circumstances allow. Joint working has taken place around the application process for Discretionary Housing Payment over the last 12 months.

3.13.4 Legal Services

An excellent relationship exists between the Rent Income team and Legal Services. The Legal Services team has been involved in developing the new rent arrears recovery procedures and continue to work closely with the Revenues team to ensure compliance with legal requirements.

3.13.5 Adult Wellbeing & Children's Wellbeing

The Rent Income Team Leader has held meetings with both Adult & Children's Services. Liaison Officers have been established within both service areas and work continues to strengthen the links to support vulnerable tenants. It has been agreed that a Liaison Officer will spend one afternoon each month in the Rent Income team to work with Rent Income Officers on cases, where tenants are most vulnerable, to agree the most appropriate course of action.

3.13.6 East Lothian Works

Members of staff from Revenues have been working with East Lothian Works to establish a referral mechanism for tenants who need help and advice on jobs, training or skills development and also where a literacy or numeracy vulnerability is identified.

3.13.7 Corporate Communications

The Revenues team is currently working with the Council's Corporate Communications team to develop a three year rent communications and publicity strategy. More information about this can be found in Section 3.16.

3.13.8 East Lothian Tenants & Residents Panel (ELTRP)

The Revenues team meets with ELTRP executive members regularly and has received a great deal of support from Panel members. The importance of paying rent is mentioned on the ELTRP slot on East Coast FM every four weeks. It has been discussed that the Panel may carry out a scrutiny review of the rent collection services. This is viewed as a positive development by the Revenues team and is likely to take place in 2015/16.

3.13.9 Scottish Rent Forum

Revenues staff continue to work with other Scottish Councils via the Scottish Rent Forum. Regular benchmarking exercises are carried out and good practice is shared between forum members.

3.13.10 Citizens Advice Bureau (CAB)

The Rent Income team works closely with the CAB, in particular, signposting tenants in need of financial and debt advice.

3.13.11 Shelter

The Rent Income team works closely with Shelter Scotland and has referral mechanisms in place to support tenants most at risk of losing their home.

3.14 Rent Arrears Management Team (RAMT)

The Revenues team works closely with other Council services to help prevent homelessness and ensure that tenancies are sustained, wherever possible.

In order to ensure that tenants are supported fully and are equipped to manage their tenancy on a long term basis, the Council's Rent Arrears Management Team (RAMT) meets monthly to review any tenancy which is being recommended for court action or eviction.

The RAMT consists of the following members:

- Service Manager - Revenues
- Rent Income Team Leader
- Service Manager - Community Housing
- Preventions Team Leader
- Solicitor from Legal Services

If there are children or vulnerable adults residing in the property, representatives from the following areas also attend the meeting:

- Children's Wellbeing
- Adult Wellbeing

Each case is presented, discussed and a collective agreement reached over the course of action to be taken. By making a collaborative decision, based on the expertise of all those concerned with the household, the most appropriate course of action for the tenant and their family can be taken and all service areas affected by this are fully informed of the situation.

3.15 Multi Agency Screening Group (MASG)

If a decision is made to issue a pre legal action letter for rent arrears, tenants who have children under the age of 16 living at home will be advised that information about their potential eviction will be shared with the Multi Agency Screening Group (MASG).

The Council has a responsibility under the Children (Scotland) Act 1995 to promote the welfare of children in East Lothian and the purpose of the MASG is to help children, young people and their families get the help and support they need as quickly as possible.

The MASG always includes representatives from Children's Wellbeing, the Police and the Health Service. The purpose of sharing this information is to ensure that if there is any vulnerability in a family then the MASG is aware of this and can offer the appropriate help and support.

3.16 **Communications & Publicity Strategy**

Although East Lothian Council has adopted the 'Rent First' message over the last few years, it was felt that brand identity could be much stronger.

At the October 2013 HQN training session, the Pay to Stay logo was suggested by the team as being an appropriate and catchy brand and it was agreed that we would base our communications and publicity material around this.

The design of this new logo has been based on the traffic light theme used on the new suite of letters so that the rent arrears branding is consistent.

Make paying your rent a priority.
You could lose your home if you don't.

In addition to using the Pay to Stay logo on Revenues documentation and email signatures, this has been added to Housing repairs letters and it is planned that all relevant Housing and Homelessness documentation will also carry the logo.

The Revenues team makes good use of Council publications, in particular the *Homefront* magazine for Council tenants and also the East Lothian Tenant & Residents *Panel News* publication, to remind tenants of the importance of paying rent and to let tenants know what is help is available for those in need of assistance. More general articles are often published to make tenants aware of developments around the rent collection service.

A three year communications and publicity strategy for rent collection, promoting a positive payment culture, is being developed in conjunction with Corporate Communications colleagues.

All documents/publications will be rebranded and the focus of the message to tenants will be aligned with new approach. In addition to this, the following will be developed:

- Potential to use property maintenance vans to promote payment of rent using the Pay to Stay logo. These vans are out in the community daily and should help tenants to recognise the link between what they pay for and the service they receive.

- Posters for bus stops, local offices and community locations.

- Banners which can be used in local offices, show homes, public events etc.

- ELTRP currently has a four weekly slot on East Coast FM and regularly advise listeners of the importance of paying rent and who to contact is they are experiencing difficulties. The team is planning to work with ELTRP to broadcast a Q&A session for listeners around paying rent and what help is available for any tenant who is having difficulty paying.

- It is planned that all new publicity material will be launched when the annual rent charge letters are issued in February 2015.

3.17 **Housing Quality Network Health Check**

The Housing Quality Network (HQN) has been commissioned to carry out an income management health check to help the Revenues identify and address any issues which may be affecting performance. The main objective is to ensure that optimum performance is achieved and that the Council and its residents are prepared for the challenges and risks ahead, particularly welfare reform and the introduction of Universal Credit.

HQN will measure the features of the Council's rent collection service against those of top performing organisations to help provide focus on operational factors which will help to maximise income collection, minimise arrears and provide effective support to tenants, particularly those who are vulnerable.

A report on the findings and recommendations from the health check will give specialist opinion on the strengths and weaknesses of the Council's approach to income management and financial inclusion.

3.18 **Text Messaging Service for Tenants**

In order to reduce costs, increase efficiency and improve customer service, our next service improvement for rent will be to implement a text messaging service for tenants.

An automated prompt will be sent to cash paying tenants before their rent payment is due reminding them to make their payment on time and in full. This proactive approach should reduce the number of first stage reminder letters that we need to issue, or phone call reminders from members of the Rent Income team.

An automated reminder will also be sent to tenants who miss a payment.

Longer term, when the Council offers a responsive web service to customers, it is hoped that payment functionality will be included within the message to allow tenants to connect to the Council website using a mobile device and make a payment immediately.

3.19 **Telephony Self Service for Tenants**

Tenants are now looking for a 24/7 service and a greater choice in how they engage with the Council.

As a recent UK Local Authority satisfaction survey on automated self service shows, 80% of customers prefer self service as a quick and convenient method of communicating with their local Council.

Telephony self service is a sophisticated method of customer contact management, benefiting both the customer and the Council. It is hoped that tenants will shortly be offered 24/7 access to rent collection and rent arrears advice and information over the telephone using this new service. This will provide tenants with an additional service provision which has the added benefit of helping the Council to meet efficiency savings.

The new telephony self service will allow more general enquiries to be managed 24/7, for example tenants phoning for balance enquiries. This will free up Rent Income Advisers from responding to repetitive or simple enquiries and will allow the Rent Income team to deal with more complex enquiries from tenants.

3.20 **Web Self Service for Tenants**

The Revenues service is looking at the feasibility of introducing a self service portal to enable tenants to access rent collection and rent arrears services via the Council website.

The service would interact with the Orchard Housing system so that customer's actions are logged in their case and contact history and any requests or updates they make can be actioned or messaged to Rent Income staff immediately.

One of the major advantages of self service is the low-cost, always available access channel. Tenants can make simple enquiries about their rent account or personal details etc. without needing a member of staff to speak to them.

The following functionality would be available:

- Personalised, easy to use web service
- Full rent account shown for selected tenancy (current or former)
- Drill down into the rent period to see individual transactions

- Request a new payment card
- Printer friendly rent statements

3.21 **The Impact of Welfare Reform on East Lothian Council and East Lothian residents**

The UK Government is currently introducing a range of measures to reform the welfare system and reduce the budget for welfare benefits by at least £11 billion annually. It has been estimated by the Scottish Local Government Forum Against Poverty in 2010 that these changes could result in the loss of £8m - £9.5m annually from welfare benefits paid to East Lothian residents.

There is a high risk that that these changes could lead to:

- loss of income which the Council currently receives for administering Housing Benefit
- increased rent arrears from reduced Housing Benefit and possible increase in evictions
- increased pressures on rent collection teams
- increase in Council Tax arrears
- increase in Business Rates arrears as businesses suffer as a consequence of the people of East Lothian having less disposable income

The Council has an established Welfare Reform Task Group which is managing the current impact of reforms and planning for the changes still to come. The Task Group has a detailed action plan to ensure that the Council takes the necessary measures to manage the impact of the changes to the welfare system.

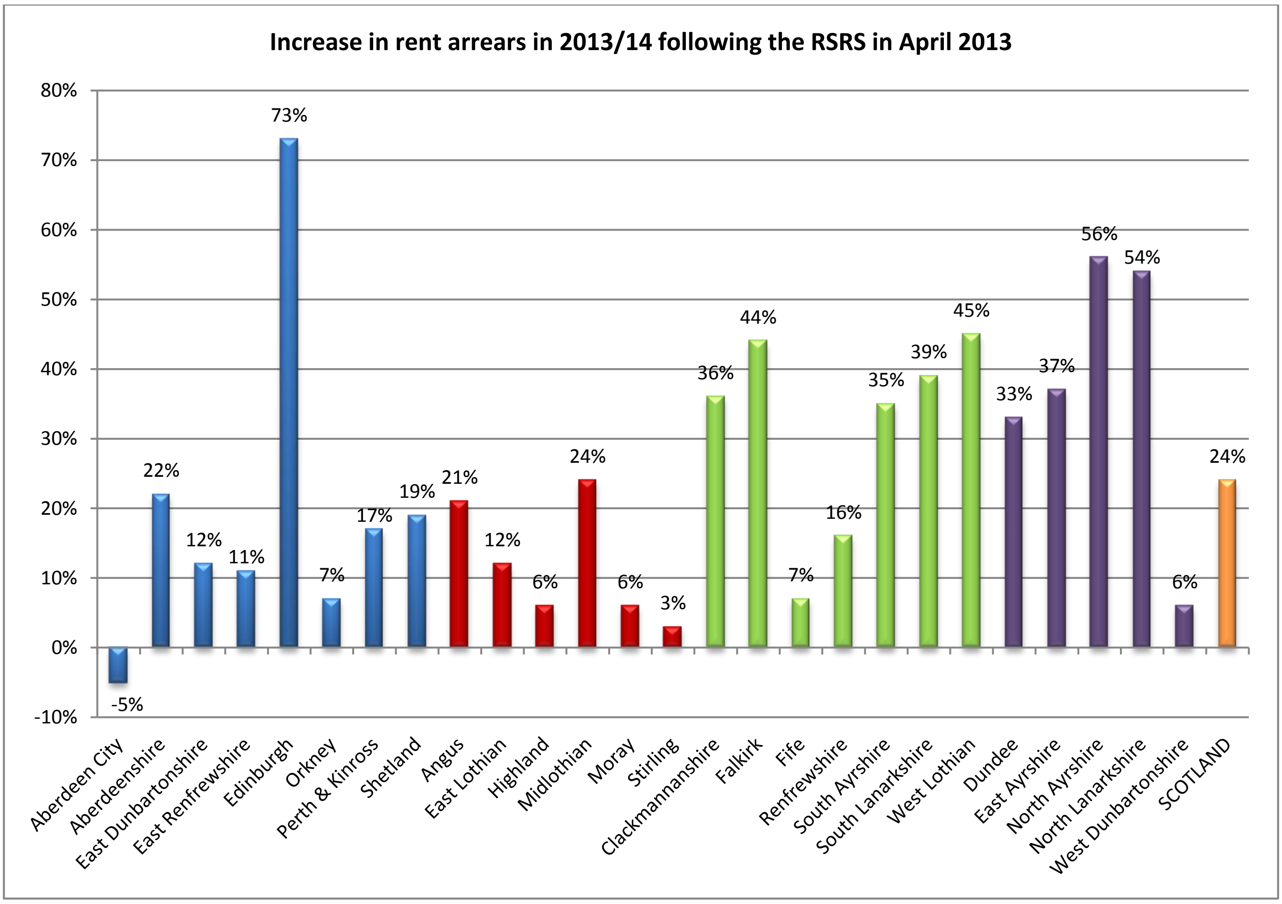
3.22 **The Impact of Welfare Reform on Rent Arrears in East Lothian**

Audit Scotland has recently published a report entitled 'The Impact of Welfare Reform on Council Rent Arrears in Scotland' (found at Appendix 1). The main purpose of the study was to analyse and compare rent arrears data and assess how Councils are responding to the changes to the welfare system.

The report findings include data showing the percentage change in rent arrears from April 2013 – March 2014 i.e. from the introduction of current reforms, particularly the introduction of benefit reductions due to Under Occupancy.

Figure 8 shows how East Lothian compares to other Scottish Councils, particularly those within their family group (as shown in the different colours) and it is encouraging to note that, whilst an increase in arrears was reported during 2013/14, this amounted to half of the Scottish average increase and compares favourably to many other Councils.

Figure 8



Source: Audit Scotland & Scottish Councils

3.23 **Under Occupancy and mitigation via Discretionary Housing Payment (DHP)**

The most significant reform introduced to date which has a direct impact on rent arrears is the removal of the spare room subsidy from those claiming housing benefit and under occupying their homes. This reform is also known as the 'bedroom tax'.

From April 2013, all working age tenants renting from a local authority, housing association or other registered social landlord have received any housing benefit entitlement based on the number of people in their household and the size of their accommodation. This means that those tenants whose accommodation is larger than they are deemed to need might lose part of their benefit. Those with one spare bedroom could lose 14% of their eligible rent and those with two or more spare bedrooms could lose 25%.

The impact of Under Occupancy on rent arrears in East Lothian is very difficult to measure with accuracy but some analysis has been carried out and estimates are shown below:

- 583 tenancies are affected by a 14% under occupancy reduction
- 261 tenancies are in arrears, with a total arrears value of £148,913.88
- 322 tenancies have a clear rent account

- 77 tenancies are affected by a 25% under occupancy reduction
- 34 tenancies are in arrears, with a total arrears value of £22,298.91
- 43 tenancies have a clear rent account

It is estimated that around £40k of the £170k owed by those affected by Under Occupancy is as a direct result of non payment of this element of the rent charge from April 2014.

DHPs are governed by The Discretionary Housing Payment (Grants) Order 2001 and may be awarded when a Council considers that a housing benefit claimant requires further financial assistance towards their housing costs. DHP is available to council tenants and non-council tenants and can help prevent rent arrears from rising. Traditionally, DHP has been considered to be a temporary solution to a difficulty in meeting housing costs and not a means of partially funding rent on an on-going basis.

In May 2014, the UK government began the process of transferring the power to set the DHP cash limit to the Scottish Government.

By devolving the setting of the cash limit, this has allowed the Scottish Government to increase the funding for DHP. For 2014/15, the UK Government announced DHP funding of £15.2 million for Scottish Councils. In addition, the Scottish Government has agreed £35 million of DHP funding and has indicated that this additional funding should fully mitigate the impact of Under Occupancy for all affected tenants.

The Council is making the most of the funding received, however full mitigation will still only be achieved in 2014/15 by first incurring an overspend which will have to be claimed back from the Scottish Government after year end.

East Lothian Council's DHP funding for 2014/15 from all sources is as follows:

DWP	**SG (Initial Award)**	**Sub Total**	**SG (Further Award)**	**Total**
£122,558	£183,837	£306,395	£121,086	£427,481

The Council's Rent Income and Benefits teams are working together to identify those affected and award payment, including a retrospective element, where appropriate.

It should be noted that DHP funding is of a temporary nature and DHP funding could revert back to levels similar to those in 2012/13. Therefore uncertainty remains for those tenants and Councils currently relying on DHP assistance to help meet rent charges.

Reductions in DHP funding could have a significant impact on rental income, rent arrears and strategic housing plans for both Council and other landlords.

3.24 **Housing Benefit Overpayments**

Wherever possible, East Lothian Council aims to recover all public sector housing benefit overpayments from ongoing benefit entitlement, which effectively increases the rent due by tenants affected and therefore has an impact on rent arrears.

Deduction from ongoing benefit is a legitimate method of housing benefit overpayment recovery but it should be borne in mind that this practice can result in individual rent accounts building arrears levels unless tenants can afford to make up the continuing shortfall in benefit. The Rent Income team works closely with the Benefits team and tenants to set manageable recovery rates.

3.26 **Accelerated Implementation of Universal Credit**

In September 2014, the UK Government announced that Universal Credit will be rolled out across the whole of the UK to all Job centres and Local Authorities from early next year, commencing with single claimants previously eligible for Jobseekers Allowance.

New claims to legacy benefits will be closed from 2016, with migration to Universal Credit to follow thereafter.

This announcement represents a considerable acceleration in implementing one of the biggest reforms and will present all social sector landlords with considerable rent collection challenges.

Following full implementation of Universal Credit, it is estimated that the Council's Rent Income team would have to collect an additional £425k per fortnight direct from claimants whose rent is currently paid direct to their rent account by housing benefit.

Following the Scottish Independence Referendum in September 2014, the Smith Commission on Devolution of Powers to Scotland has been tasked with arriving at a set of proposals to devolve powers, one of which will be Welfare.

There is an appetite within various parts of the housing profession for Scotland to be granted more powers over aspects of Welfare which directly impact upon the sound operation of Scotland's housing system. However, the issue of precisely which parts of Welfare should be devolved is complex and requires careful consideration by the Commission.

East Lothian Council must plan for the imminent implementation of Universal Credit for the time being but there remains the possibility that new devolved powers may see a change to the current direction of travel.

4 POLICY IMPLICATIONS

4.1 There are no policy implications.

5 EQUALITIES IMPACT ASSESSMENT

5.1 There is no direct impact on equalities, therefore an equalities impact assessment has not been carried out.

6 RESOURCE IMPLICATIONS

6.1 Financial – none

6.2 Personnel - none

6.3 Other – none.

7 BACKGROUND PAPERS

7.1 Report to PPRC titled Rent Arrears, dated 19th March 2013.

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DATE	13th November 2014

Appendices:

Appendix 1 Audit Scotland: The Impact of Welfare Reform on Council Rent Arrears in Scotland'

The impact of welfare reforms on council rent arrears in Scotland

AUDIT SCOTLAND

Prepared for the Accounts Commission

25 September 2014

Audit Scotland is a statutory body set up in April 2000 under the Public Finance and Accountability (Scotland) Act 2000. We help the Auditor General for Scotland and the Accounts Commission check that organisations spending public money use it properly, efficiently and effectively.

Contents

Introduction

1. The UK Government has introduced of a number of welfare reforms since 2010. Many of these reforms impact upon household income and housing benefit (HB). The most significant reform introduced to date with a potential direct impact on social housing rents is the removal of the spare room subsidy (RSRS), also known as the 'bedroom tax', which was introduced in April 2013.
2. From April 2013 all working age tenants renting from a local authority, housing association or other registered social landlord receive HB based on the number of people in their household and the size of their accommodation. This means those tenants whose accommodation is larger than they need might lose part of their HB. Those with one spare bedroom could lose 14% of their eligible rent and those with two or more spare bedrooms could lose 25%.
3. For the purpose of this study, Audit Scotland looked at local authority rent arrears to determine the extent to which the RSRS and other welfare reforms have impacted on rent arrears in Scotland. We reviewed the published housing statutory performance indicators (SPIs) for all Scottish councils with housing stock for the period 2011/12 to 2012/13. In order to compare these SPIs before and after the introduction of the RSRS, a questionnaire was devised and issued to each council in March 2014 requesting the same information for 2013/14.
4. This report details the findings of our analysis of this data and includes a review of the underlying factors impacting on rent arrears, highlights council initiatives to help mitigate the effect of welfare reforms on rent arrears, and details revisions that councils have made to their housing policies in response to welfare reforms. Finally, the report highlights where current welfare reforms as well as those still to be introduced, may impact on rent arrears in the future.

Key messages

5. In 2012/13 the value of rent arrears for all Scottish councils was £28.2 million which was an increase of approximately 16% on 2011/12 levels. Following the introduction of the RSRS in April 2013, rent arrears increased further to £35.1 million by 31 March 2014, which represents an increase of approximately 24% on 2012/13 levels. A number of reasons for the increase in 2013/14 have been suggested by councils. These include:
   - the combination of welfare reforms such as the reduction in HB due to the RSRS, a restriction on the amount of benefit that can be received (the benefit cap), the increase in non-dependent deduction charges, benefit sanctions, changes to Employment Support Allowance (ESA) and tax credits
   - councils announcing 'no eviction' policies appearing to have removed the ultimate sanction for non-payment of rent
   - additional pre-action requirements introduced in August 2012 that landlords must satisfy before serving a legal notice on a tenant
   - the downturn in the economy and a high unemployment rate in some areas
   - tenants not engaging with councils or prioritising their rent payments.
6. Discretionary housing payments (DHPs) provide financial assistance towards housing costs and are available to benefit claimants of both council and other landlords. DHP funding has risen significantly from £4.2 million in 2012/13 to £38.2 million in 2013/14. Despite a significant amount of effort and resources employed by councils, only £29.4 million of this funding was spent. Without the additional DHP funding, rent arrears for council tenants could have potentially been up to £49 million at the end of 2013/14.
7. Councils have revised internal policies and introduced a wide range of initiatives to help support tenants to pay rent and with welfare reform in general. Initiatives have been introduced around money advice, digital inclusion and helping people gain skills to increase job opportunities.
8. Looking forward, future reforms such as Universal Credit (UC), direct payments to claimants, and the fact that many households are, or might be affected by more than one welfare reform change, are likely to make rent collection even more challenging.

Background

9. The UK Government's Emergency Budget in June 2010 and the October 2010 Comprehensive Spending Review introduced a number of reforms with the aim to fight poverty, support the most vulnerable in society, and help people break the cycle of benefit dependency.

10. This is the biggest reform of the UK welfare system for 60 years and has resulted in a number of significant changes to how councils deliver services. Part of this agenda included reductions in welfare spending spread across different areas of benefits with only pensioners being exempt from the changes. The Scottish Government estimates that the impact of the changes over the six year period 2010/11 to 2015/16 could reduce the Scottish welfare bill by around £6 billion. The Scottish Parliament's Welfare Reform Committee's statistical update in respect of the RSRS showed that, at the end of November 2013, there were 71,694 households in Scotland with more bedrooms than deemed necessary (under-occupation). This equates to one in eight of all households in the social rented sector.

11. The various welfare reforms can lead to tenants experiencing severe financial difficulties and in respect of council tenants, this can lead to increased rent arrears and additional costs to councils seeking to recover these arrears.

12. Of the thirty two Scottish councils, twenty six have housing stock and the income derived from these properties is used to maintain and improve current properties, build new properties, and service debt. Councils prepare long term housing strategies and these plans, and the decisions emerging from them, are based on financial assumptions such as inflation, borrowing costs and significantly, rental income. Any reduction in rental income could seriously impact housing strategies to improve and maintain housing stock.

13. In order to help mitigate the impact of the RSRS in 2013/14, £18.2 million was provided by the UK Government in the form of additional DHP funding for Scotland. The Scottish Government also provided £20 million to help mitigate the impact of the RSRS.

Impact of welfare reforms

Rent Arrears

14. Rent arrears are the amount of rent due but not paid to the landlord on time. It includes current tenants arrears which is money owed by existing tenants, and former tenant arrears which is money owed by people who are no longer tenants, for example where the tenant has been evicted, has abandoned the property, or had their tenancy terminated.

15. The introduction of the RSRS in April 2013 means that where a tenant has more bedrooms than is deemed necessary they are considered to be under-occupying the property. Tenants in receipt of HB would therefore receive a reduction in the amount of rent eligible for HB of 14% for one extra bedroom, and 25% for two or more extra bedrooms.

16. Although there are some exceptions, the UK Government estimated that the average council tenant would need to find an extra £14 per week to meet their rent commitment. As there is a national shortage of one-bedroom council properties to allow tenants to downsize, it was anticipated that the implementation of this welfare reform would result in an increase in the value of rent arrears as tenants found it difficult to meet the additional rental charge.

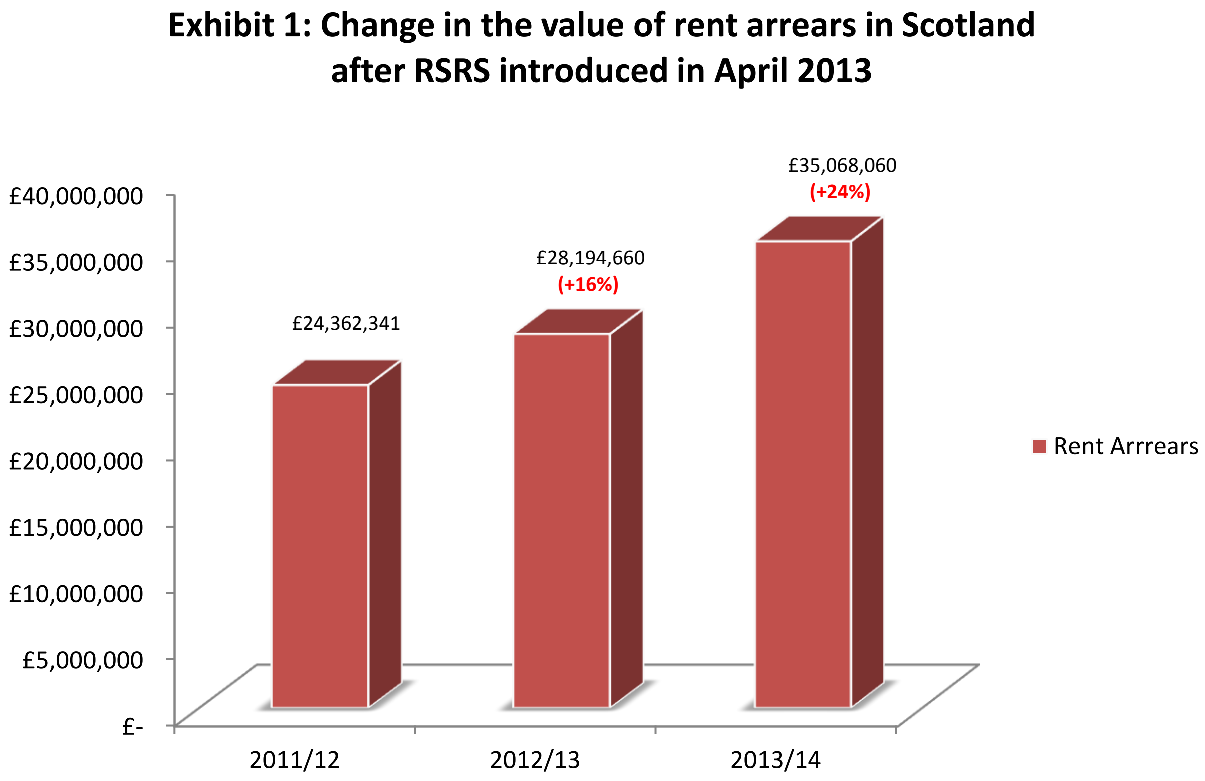
17. In order to determine to what extent welfare reforms have impacted on rent arrears, Audit Scotland analysed current and former rent arrears data for the period 2011/12 to 2013/14, in respect of the 26 councils that have council housing stock.

Former Tenant Arrears

18. Our review identified that the value of former tenant arrears remained relatively static between 31 March 2013 and 31 March 2014 at between £22.1 million and £22.2 million. £6.5 million of former tenant arrears were written off in 2013/14, which was largely in line with the £6.6 million of former tenant arrears written off in 2012/13. In view of this, we have excluded former tenant arrears from our analysis as there does not appear to have been any significant impact in this area as a result of welfare reforms.

Current Tenant Arrears

19. Exhibit 1 below shows the change in the value of current tenant rent arrears in Scotland during the period 2011/12 to 2013/14.



Source: Audit Scotland & Scottish Councils

20. This exhibit shows an increase in current tenant rent arrears of approximately £3.8 million from 2011/12 to 2012/13 and, following the RSRS in April 2013, a further increase of approximately £7 million, which represents a 24% increase on 2012/13.

21. In order to establish the possible reasons for the change in the value of current rent arrears and to determine the impact of the government's welfare reforms we looked at the gross annual rent charge in the housing revenue account for all Scottish councils. This is the value of the total rental income available to councils as revenue from its housing stock.

22. The gross annual rent charge may change due to factors such as rent charges being increased in council budgets, or an increase or decrease in the number of council houses. It could be expected that if rent arrears remained at a constant percentage of the gross rent charged then actual arrears could rise as the gross rent charged rises.

23. However, when we compared the increase in the gross annual rent charge for 2013/14 of 4.4%, to the increase in rent arrears of 24%, we concluded that the increase in rent arrears is not solely due to an increase in rental charges. The 4.4% increase in the gross annual rent charge was broadly similar to the 3.8% increase in 2012/13.

24. Exhibit 2 below shows the increase in the value of current tenant rent arrears as a percentage of the gross rent charge.

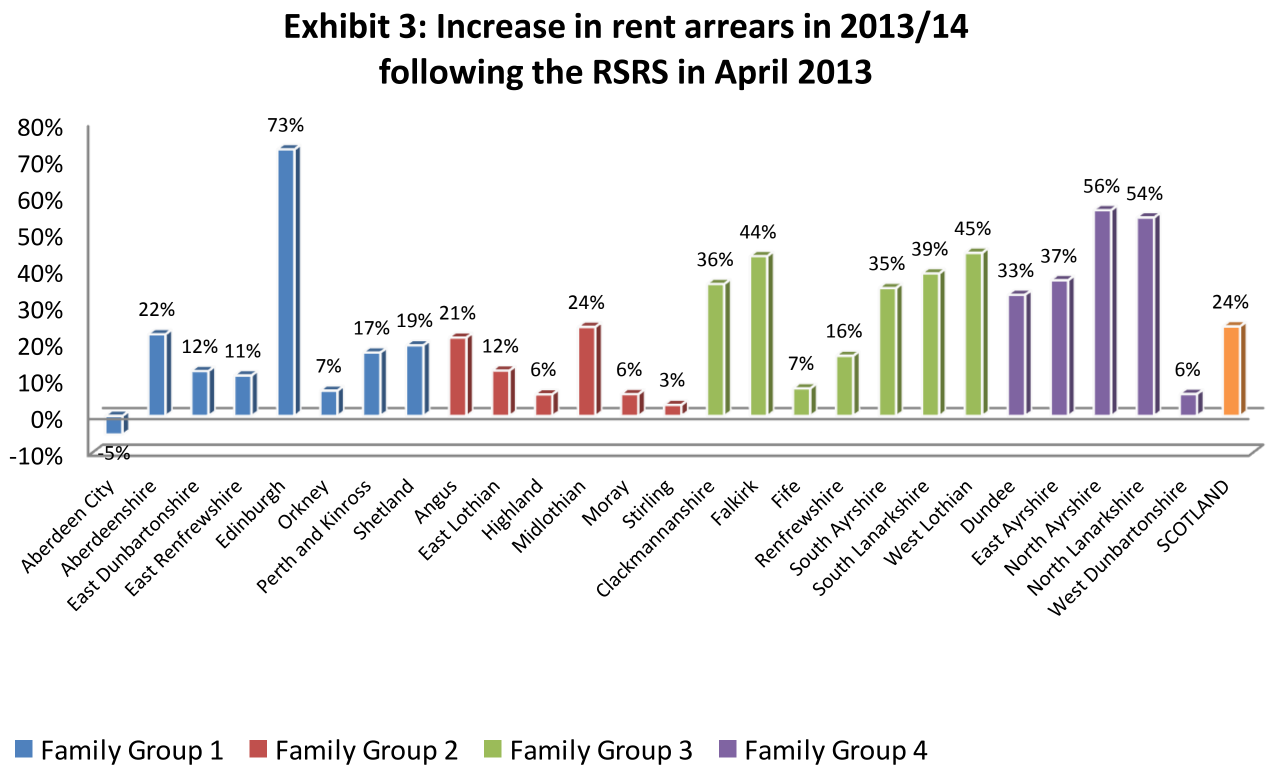
Exhibit 2: Rent arrears as a percentage of gross rent charged

	Gross rent charged	Rent arrears	%
2011/12	**£952,637,415**	**£24,362,341**	**2.6%**
2012/13	**£988,667,716**	**£28,194,660**	**2.9%**
2013/14	**£1,032,336,268**	**£35,068,060**	**3.4%**

Source: Audit Scotland & Scottish Councils

25. The table above illustrates an increasing trend in the percentage of rent charged that has not been paid.

26. Exhibit 3 below shows the increase in current tenant rent arrears for each council in Scotland in 2013/14. Councils have been grouped in accordance with the family groups established by the local government benchmarking framework for housing services.



Source: Audit Scotland & Scottish Councils

27. The exhibit above shows a wide variance in the percentage change of rent arrears across Scotland ranging from Aberdeen City Council, where rent arrears dropped by 5%, to the City of Edinburgh Council where rent arrears increased by 73%, which equates to approximately £1.5 million. This variance may be explained in part by local economic factors and various different initiatives introduced by councils to ensure rent arrears levels remained as low as possible. The distribution methodology used to allocate the increased DHP funding and the additional Scottish Government funding to each council appears to also have had a varying impact across councils as some councils appear to have had more funding than was required.

The increased DHP funding provided during 2013/14 is discussed later in this report under *Discretionary Housing Payments.*

28. There were a number of factors that councils stated contributed to the increase in rent arrears. These included:

- the combination of welfare reforms such as the reduction in HB due to the RSRS, the benefit cap, the increase in non-dependent deduction charges, benefit sanctions, changes to Employment Support Allowance and tax credits
- additional pre-action requirements introduced in August 2012 that landlords must satisfy before serving a legal notice on a tenant
- where it was known that a council had announced a 'no eviction' policy the ultimate sanction of evicting the tenant for non-payment of rent appeared to have been removed
- the downturn in the economy and a high unemployment rate in some areas
- tenants that were not engaging with the council or prioritising their rent payments
- resource pressures due to the additional amounts to be collected as a result of the impact of the RSRS, as well as reallocation of resources to engage with tenants affected by the RSRS
- a DHP budget that did not allow full mitigation of the RSRS in some areas. The percentage of tenants qualifying for HB and DHP varies across councils.

Write-Offs

29. A write-off of council house rent would normally be considered when a tenant has failed to pay their rent, accrued a debt and, despite the council's best efforts, the full amount due has not been paid.

30. All councils endeavour to recover all debts however councils have different, locally agreed, write-off policies. There are a number of valid reasons why rental debt could be deemed irrecoverable and subsequently written off. These include:

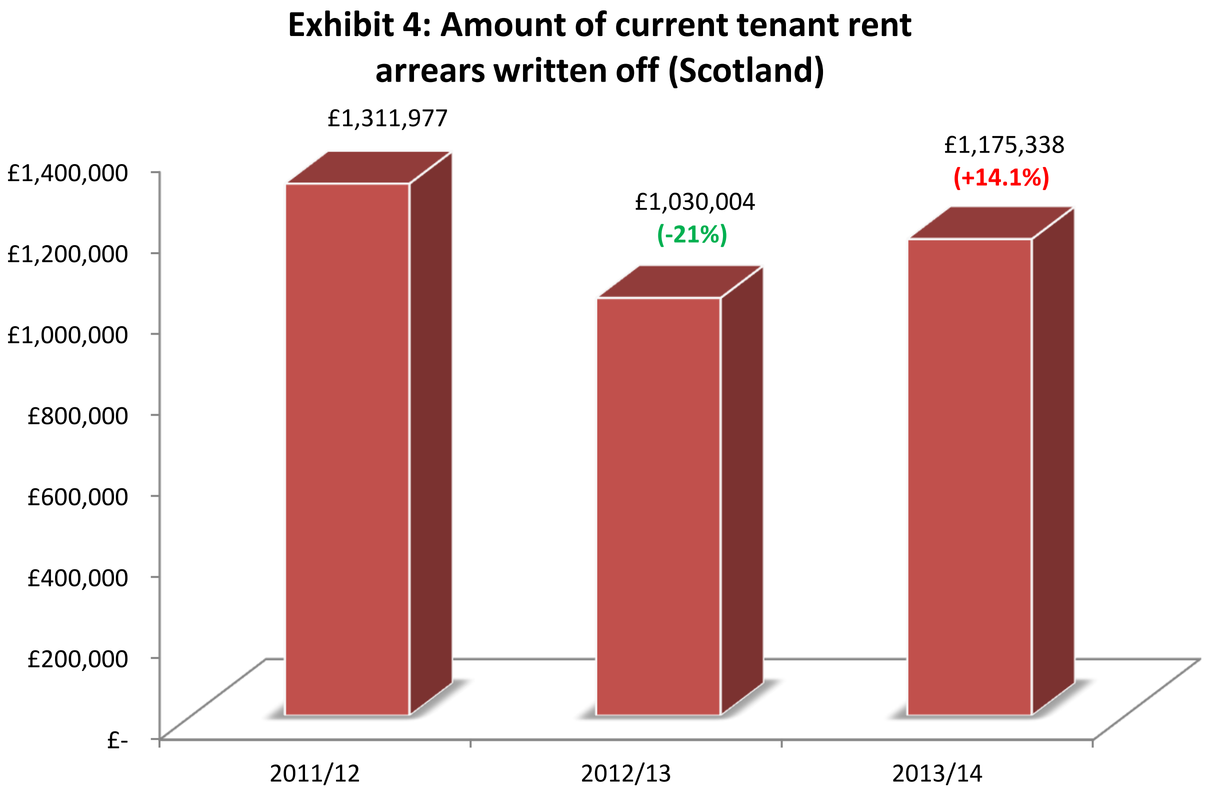
- the tenant has died and there is no next of kin
- the council's external debt recovery agents deem the debt irrecoverable
- the tenant has been declared bankrupt.

31. Writing off debt reduces the amount of rent arrears outstanding. Therefore not writing off irrecoverable debt on a regular basis can cause rent arrears to rise. We reviewed the level of debt written off to try to establish if welfare reforms have had an impact on write-offs or, if the level of write-offs have had any impact on the increased rent arrears levels.

Current tenants

32. Current tenant rent arrears are normally pursued by councils and only written off in exceptional circumstances, for example, where the tenant has been sequestrated. Of the 26 Scottish councils with housing stock, seven had not written off any current tenant rent arrears in 2011/12, 2012/13 or 2013/14. Of the remaining 19 councils, only one (Renfrewshire) stated that the increase in the amount of current tenant arrears written off was a result of the RSRS.

33. Exhibit 4 below shows the change in the value of current tenant rent arrears written off in Scotland from 2011/12 to 2013/14. As this exhibit shows, following a reduction in the value of rent arrears written off in 2012/13, there has not been a significant increase in write offs in 2013/14 and we conclude therefore that welfare reforms have had no discernible impact in this area, and that the increase in rent arrears in 2013/14 is not directly linked to a reduction in the write-off level of current tenant arrears during the year.



Source: Audit Scotland & Scottish Councils

Bad Debt Impairment

34. The amount of housing rent debt on council balance sheets is the total amount expected to be collected from tenants. In order to recognise that some of this debt will not be recovered and will have to be written off during the course of the year, councils estimate the debt that is unlikely to be recovered as 'bad debt'. In order to be prudent, councils need to show a realistic figure for the value of debts that are unlikely to be recovered during the year and recognise a bad debt impairment for those debts.

35. In order to establish what action councils were taking to mitigate the impact of the welfare reforms, we asked if any changes had been made to the bad debt impairment calculation for 2013/14 on the basis that councils had concerns that the RSRS would affect rental income. However, of the 26 councils with council properties, only five (19%) stated that they had increased their bad debt impairment in mitigation of an expected increase in rent arrears arising from the welfare reforms.

36. Therefore, based on the remaining 21 councils (81%) that told us that they had not increased their bad debt impairment, or changed their methodology, we conclude that the RSRS has not adversely affected councils bad debt impairment planning or estimation decisions so far.

37. However, we consider that, going forward, this is an area that councils should be proactively looking at in more detail as additional welfare reforms are implemented, and councils become more aware of the impact of these changes.

Voids

38. A 'void' is a property that does not have a current tenancy. As no rental income is received for void properties, it is in the best interests of councils to minimise the number of void properties in order to maximise rental income.

39. Before the RSRS was introduced, councils were concerned that the there was a lack of suitable and available one bedroom housing stock to enable customers to downsize. Concerns were raised that this would result in difficulties in letting properties with more than one bedroom, and that this would result in lost rental income from these 'voids'.

40. In order to determine what impact the RSRS has had on the value of rent lost to 'voids' in 2013/14 we analysed data for the periods 2011/12, 2012/13 and 2013/14 provided to Audit Scotland by the 26 councils that had council housing stock. We also asked these councils to provide an explanation, where appropriate, if the increase in rent lost to voids was a direct result of the RSRS introduced in April 2013.

41. Exhibit 5 below details the total value of rent lost to voids for the 26 councils.

Exhibit 5: Value of rent lost to voids 2011/12 - 2013/14

Year	Value of rent lost to voids (£)	% of gross annual rent charged	Change over previous year (£)
2011/12	£12,368,686	1.3%	N/A
2012/13	£12,309,222	1.2%	-£59,464
2013/14	£13,097,700	1.3%	£788,478

Source: Audit Scotland & Scottish Councils

42. Of the 26 councils, 17 (65%) reported an increase in the value of rent lost to voids between 2012/13 and 2013/14 in the range of 1.6% to 70.7%. However, only three of the 17 councils (18%) reported that this increase was directly related to the RSRS with increased rent lost to voids of 1.6% in Renfrewshire (£21,200), 11.8% in North Ayrshire (£16,608), and 34.9%, in Falkirk (£165,094). All of these councils stated that the letting of larger properties, particularly three bedroom properties, was becoming harder.

43. One council (North Ayrshire) stated that there had been a 75% increase in the turnover of three bedroomed properties in 2013/14, and that there was low demand from applicants on the housing register for some of these houses. The council also stated that it would have concerns should this trend continue. Renfrewshire Council stated that there had been no significant impact in respect of voids, but that some larger properties were becoming less popular and requiring more offers before being let, while Falkirk Council advised that there had been a movement in demand which had resulted in a number of three bedroom properties becoming harder to let and that this had been reinforced by the growth in the value of rent lost to voids in 2013/14.

44. In conclusion, based on the 23 (88%) councils that reported no significant impact on rental income as a result of the RSRS we consider that this aspect of the government's welfare reforms has had no discernible effect on the loss of rental income so far. However, we consider that this is an area that councils will need to continue to monitor going forward.

Discretionary Housing Payments

45. DHPs are governed by The Discretionary Housing Payment (Grants) Order 2001 and may be awarded when a council considers that a HB claimant requires further financial assistance towards their housing costs. DHP is available to council tenants and non-council tenants and can therefore help prevent rent arrears from rising. Traditionally, DHP has been considered to be a temporary solution to a difficulty in meeting housing costs and not a means of partially funding rent on an on-going basis.

46. Councils receive UK Government funding for DHP each year from the DWP. This funding may be topped up from council resources to an overall DHP cash limit. The Discretionary Housing Payment (Grants) Order 2001 stated that the overall cash limit for DHP was two and a half times the UK Government contribution at the beginning of the financial year.

47. In March 2014, the DWP amended the Grants Order to increase the cash limits for Scottish councils by just over £7 million to £40.7 million.

48. As a result of welfare reforms, the UK Government significantly increased funding for DHP for Scottish councils from £4.2 million in 2012/13 to £18.2 million in 2013/14, an increase of 333%. This includes £1.1 million of transitional funding which councils could decide to use to pay additional DHPs or for other initiatives, for example preventing homelessness. During 2013/14 the Scottish Government also provided Scottish councils with an additional £20 million of funding to help mitigate the impact of welfare reforms.

49. Total funding for DHP in 2013/14 was £38.2 million as shown in exhibit 6 below.

Exhibit 6: DHP Funding for 2013/14

UK Government funding (A)	Rural Funding (B)	Reserve Fund Award (C)	Honouring Official Error	Transitional Funding	Scottish Government funding	Total	Overall cash limit (2.5xA+ B+C)
£10.1m	£3.4m	£2.8m	£0.8m	£1.1m	£20m	£38.2m	£40.7m

Source: Audit Scotland, Scottish Government, DWP & Scottish Councils

50. The total value of DHP awards made to claimants was £29.4 million in 2013/14. Therefore, despite a significant amount of effort and resources employed by councils, £8.8 million (23%) of DHP funding was not spent. If the assumption is made that all transitional funding was used for purposes other than DHP payments, the underspend would be £7.7 million. Appendix A shows the percentage of underspent funding across all councils. The percentage of funding not spent varies across councils with some councils spending all funding received with others spending less than 30%.

51. Similarly when comparing DHP spend against cash limits, £29.4 million was awarded in DHP payments against an overall revised cash limit of £40.7 million.

52. It may appear surprising that DHP funding has not been fully used to support tenants requiring financial assistance to make rent payments and keep rent arrears to a minimum. However, reasons provided by councils for the underspend included:

- difficulty in planning and devising DHP policies and guidance as a result of the sporadic nature of the additional funding provided at various points during the year
- the DWP increasing the cash limit one week before the end of the financial year
- some of the funding, for example the bid funding, was announced late in the financial year
- not all tenants in arrears qualify for DHP, and some were unwilling or unable to engage
- funding that was more than required in some areas.

53. It is interesting to note that all of the twelve councils that received additional funding due to being the least densely populated areas in Scotland had underspends ranging from £91,000 in Shetland to £1.03 million in Aberdeenshire. The total DHP underspend compared to total funding was £6.4 million (51%) in respect of these twelve councils.

54. This would indicate that the amount of funding provided to these rural councils was significantly more than required and compared to other councils, where DHP spend has met or exceeded 100% of the funding, it would suggest a review of the funding distribution methodology is required.

55. Exhibit 7 below shows the amount of DHP underspend for the twelve councils in receipt of rural funding along with the percentage change in rent arrears, where applicable, for these councils.

Exhibit 7: DHP Funding for 2013/14

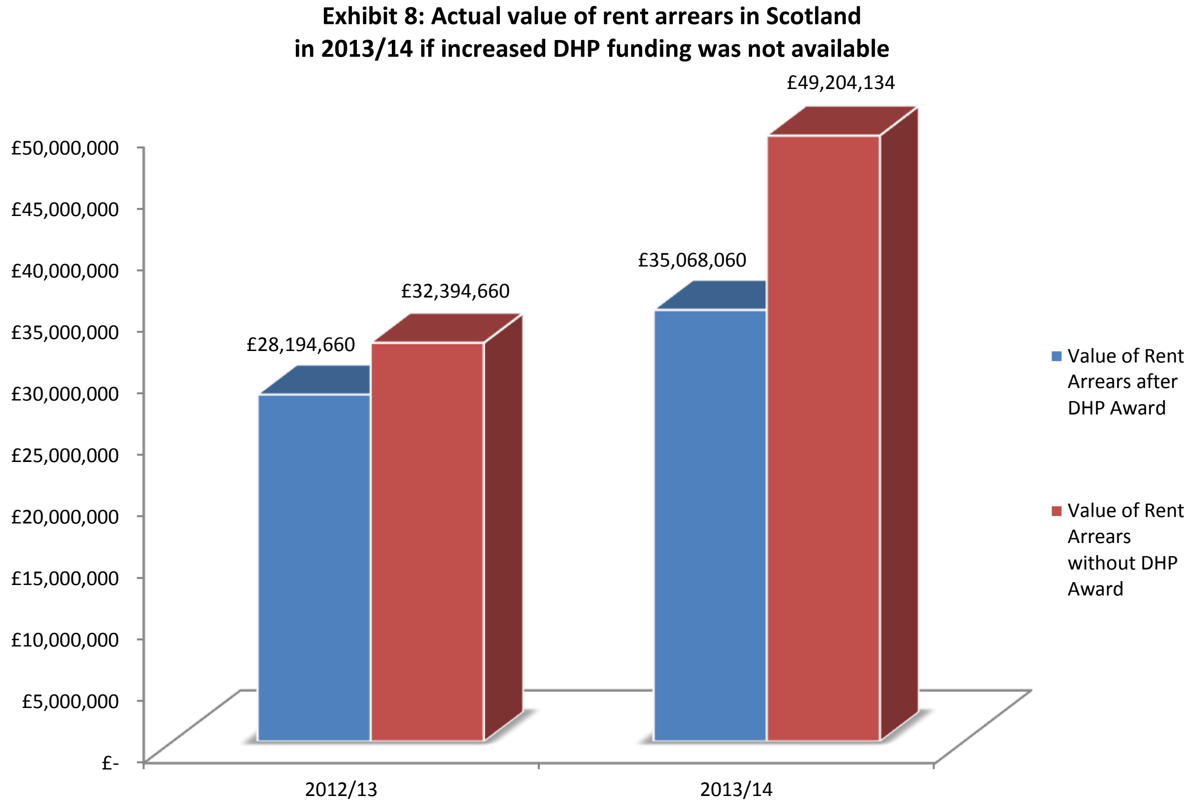
Council	Total DWP & Scottish Government funding	DHP underspend	% of funding not spent	% increase in current tenant arrears
Aberdeenshire	£1.50 m	£1.03m	69%	22%
Angus	£1.04m	£0.59m	57%	21%
Argyll & Bute	£0.97m	£0.57m	59%	N/A - no housing stock
Comhairle nan Eilean Siar	£0.28m	£0.19m	40%	N/A - no housing stock
Dumfries & Galloway	£1.72m	£0.71m	41%	N/A - no housing stock
Highland	£2.58m	£0.49m	19%	6%
Moray	£0.63m	£0.45m	71%	6%
Orkney	£0.17m	£0.09m	53%	7%
Perth & Kinross	£1.32m	£0.91m	69%	17%
Scottish Borders	£1.18m	£0.69m	58%	N/A - no housing stock
Shetland Islands	£0.18m	£0.09m	50%	19%
Stirling	£1.11m	£0.63m	57%	3%
	£12.5m	£6.4m	51%	

Source: Audit Scotland, Scottish Government, DWP & Scottish Councils

56. As previously mentioned, the total value of DHP awards made to claimants was £29.4 million in 2013/14. Looking specifically at the DHP awarded to council tenants, of the 26 councils with council housing stock, 24 were able to split their DHP awards between council tenants and other tenants. The total DHP awarded to council tenants for the councils able to provide a split was £12 million.

57. Although the increase in rent arrears shown in exhibit 2 is significant, the true arrears figures if DHP payments had not been made to council tenants during the year is much higher. Exhibit

8 below shows the potential impact on rent arrears had the DWP and Scottish Government not provided additional funding. We have assumed that for the two councils unable to split their DHP payments, half of the payments were paid to council tenants.



Source: Audit Scotland & Scottish Councils

58. Notwithstanding this, assuming the same increase in rent arrears of 16% that was reported in 2012/13, and taking account of the DHP payments made, Scottish councils rent arrears were still approximately £2.4 million higher in 2013/14 after the introduction of the RSRS.

59. Appendix B looks specifically at the arrears in the 24 councils able to split their DHP awards between council tenants and other tenants. The appendix shows the amount of rent paid by DHP and the current tenant arrears after DHP has been awarded.

60. In May 2014, the UK government offered to transfer the power to set the DHP cash limit to the Scottish Government. The legal and parliamentary process to transfer this power is likely to take until autumn 2014 to be complete.

61. By devolving the setting of the cash limit to the Scottish Government, this will allow the Scottish Government to increase their funding for DHP. For 2014/15, the UK government has announced DHP funding of £15.2 million for Scottish councils. In addition, the Scottish Government has agreed £35 million of DHP funding and has indicated that this additional funding should mitigate the impact of the RSRS for all affected tenants.

62. It should be remembered that DHP funding is of a temporary nature and DHP funding could revert back to levels similar to those in 2012/13. Therefore uncertainty remains for those tenants and councils currently relying on DHP assistance to help meet rent charges.

Reductions in DHP funding could have a significant impact on rental income, rent arrears and strategic housing plans for both council and other landlords.

Policies

63. Councils have kept elected members up to date with the welfare reform agenda as well as the impact in their local areas and the actions taken to mitigate any adverse impact on local residents. As a result, changes have been made to council policies that cover the award of DHP, collecting rent arrears, and the allocation of social housing. Policy revision proposals have been developed by officers and presented to elected members through relevant committees for approval.

64. A number of councils have reviewed their rent arrears policies and made announcements to clearly articulate that there will be no evictions where rent arrears have accrued as a result of under occupancy or the benefit cap, and the tenant is engaging with the council and taking reasonable steps to meet their rent commitment. However, it is extremely difficult for councils to identify the cause of rent arrears in many cases as the RSRS might only be one of a range of financial challenges being faced by a tenant. In setting such policies, councillors and officials need to be mindful of their responsibilities to safeguard council finances.

65. Although this has been reported by the media as a significant policy change by councils, and may appear in some cases to have removed the ultimate sanction for non-payment, it is not a fundamental change from previous debt management activity. Councils have always tried to engage with tenants who are in arrears and will avoid taking eviction proceedings wherever possible. In most cases, eviction proceedings are the last resort and only taken after all reasonable efforts to help the tenant have failed.

66. Although councils retain the right to evict tenants in arrears who do not engage with them, they are very aware of their legal duty to provide, often costly, housing support to those residents assessed as unintentionally homeless.

67. DHP policies now include more generous and extended awards following the receipt of additional funding with priority for those affected by under occupancy or the benefit cap. Some councils rolled 2013/14 awards over to June 2014 until 2014/15 funding was clarified.

68. Some councils have also included the requirement to provide welfare reform information to all new tenants.

69. In addition, some housing allocation policies now include incentives to encourage downsizing, additional points being awarded to those on the housing waiting list that are under-occupying, and amended size criteria to mirror that of DWP.

Initiatives

70. To help mitigate the impact of the welfare reforms, councils and other stakeholder organisations have implemented a number of initiatives. The more widespread ones are:

- offering money advice and maximising household income

- working with credit unions - as an example North Ayrshire Council and five other Ayrshire landlords have created a partnership with a credit union to help tenants set up bank accounts and manage household budgets. Angus and Clackmannanshire councils have undertaken similar work
- employment initiatives and helping to build skills - such as:
  - The Highland Council supporting its residents to gain digital skills
  - West Dumbarton Council's Working4U services which helps people to gain skills and education to increase job opportunities
  - Angus Council reviewing arrangements at its libraries to promote digital inclusion
  - South Lanarkshire Council referring its Tenant Liaison Team's customers to specialist training and employability services
- facilitating mutual exchanges via a national direct home swap service for social housing tenants who want to swap or exchange their property.

Long term plans

71. At this point in time welfare reform changes have had no significant impact on council's long term housing plans and strategies. Consideration is been given as to how the shortage of one bedroom properties will be addressed and similarly how stocks of family sized houses where currently demand is generally low will be managed.

72. A key concern for most councils is the combined impact of the introduction of UC and restrictions on rent levels, and how they will deliver their statutory duty to homeless households. North Ayrshire Council has undertaken an options appraisal to determine how services could continue to be delivered beyond 2015/16 while others prefer to wait for clear guidance from DWP as to how temporary accommodation will be treated under UC arrangements.

Looking forward

73. Looking forward there are other areas of welfare reform that cause concern. Not least the fact that many households are or, are likely to be, affected by more than one change which will make rent collection more difficult as these changes are implemented.

74. The movement of customers from Disabled Living Allowance to Personal Independent Payments and Incapacity Benefit to ESA, benefit sanctions, and importantly the introduction of UC and direct payments to claimants are likely to make rent collection more challenging.

75. Acknowledging the huge and adverse impact welfare reform will have on communities, action to mitigate this has been coordinated at Community Planning level in Scottish Borders and Orkney Islands councils while Fife Council is developing arrangements to integrate Welfare Reform within local Community Planning.

76. The uncertainty around UC migration makes workforce and resource planning extremely difficult for all councils and their services.

77. In East Ayrshire Council elected members have requested a targeted study on Jobseeker's Allowance and ESA sanctions, to understand the impact of this locally.

78. Scottish Borders Council raised several concerns around the continued reliance on DHP in terms of:

- uncertain future funding
- added administration burden
- tenant expectation.

79. South Ayrshire Council is engaged in ongoing dialogue with colleagues from DWP regarding the proposed Local Support Services Framework and work is underway to map the current provision of advice and information services, the role of partners and the capacity across the council area to support digital inclusion in the future.

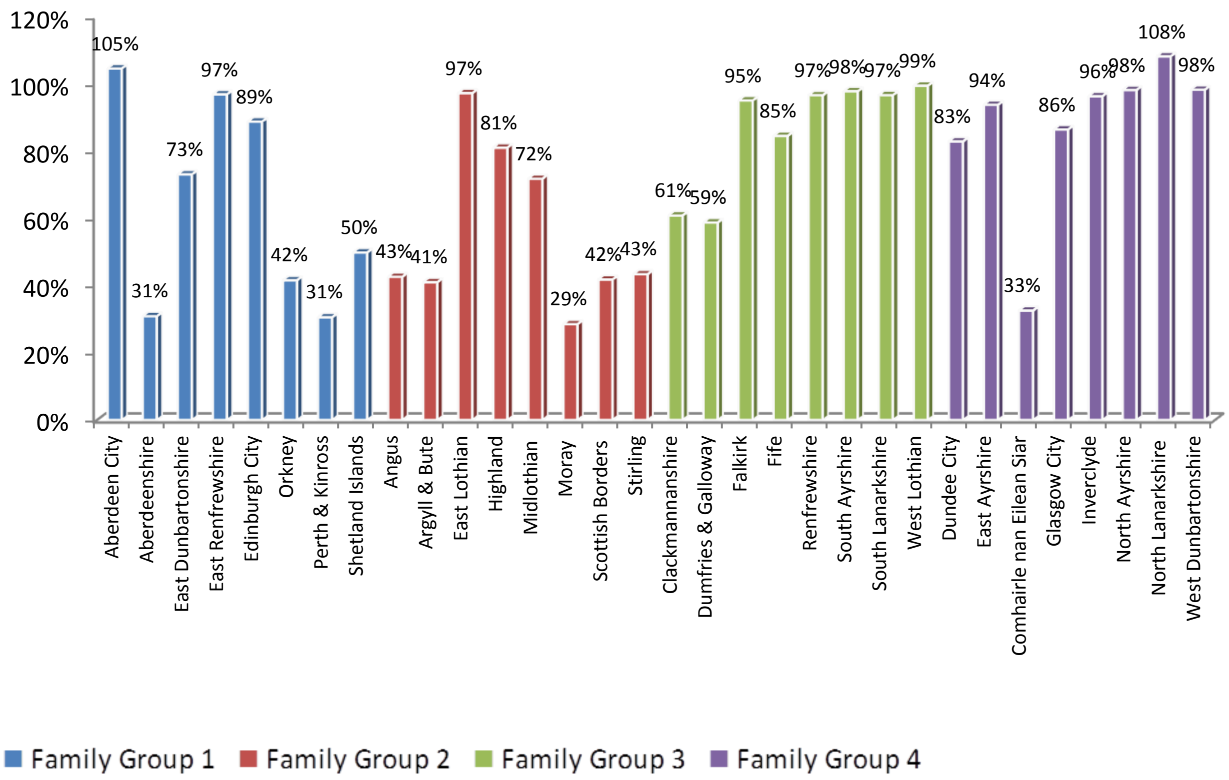
Appendix A

80. Exhibit 9 below details individual Scottish councils DHP spend as a percentage of the total funding available and illustrates the significant variance across Scotland. DHP spend ranging from 29% to 108% might be considered indicative of local economic circumstances and in the distribution formula with some councils apparently receiving significantly more funding than was required. Councils in receipt of rural funding are shown in blue.

81. Only 13 of the 32 councils spent in excess of 90% of their DHP budget with ten councils unable to spend more than 50% of their allocation.

82. Councils have been grouped in accordance with the family groups established by the local government benchmarking framework for housing services.

Exhibit 9: Percentage of council DHP spend to total funding



Appendix B

83. Exhibit 10 below shows rent arrears and DHP awarded to council tenants in 2013/14 for the 24 councils able to split DHP awards between council tenants and other tenants. Again, councils have been grouped in accordance with the family groups established by the local government benchmarking framework for housing services where appropriate.